Top of Form

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| **MR2100 Marketing 2**  **Place Element of the Marketing Mix** | |
|  | **Learning Objectives:** |
|  | *Upon completion of this unit the learner should be able to:*   1. Discuss channels of distribution. 2. Distinguish between Direct and Indirect channels of distribution 3. Explain the purpose and function of intermediaries. 4. Discuss the three types of Vertical marketing Systems 5. Describe factors considered by marketing people when selecting and managing a marketing channel. 6. Differentiate between physical distribution and logistics. 7. Explain what supply chain and logistics management are and how they relate to marketing strategy. 8. Explain the Total Logistics Concept 9. Explain the Customer service concept 10. Identify strategies for selecting and operating distribution channels. 11. Understand the distinction between supply chain responsiveness and efficiency in terms of warehousing, materials handling and order processing. |
|  | **Overview of this Unit** |
|  | This chapter focuses on marketing channels of distribution and why they are an important component in the marketing mix. |

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| **Channels of Distribution** |
| **Channel of Distribution**  A **Channel of Distribution*,***or *Marketing Channel*, is the route that a product follows in order to pass from the manufacturer to the ultimate consumer.  **Marketing Intermediaries**  **Marketing Intermediaries** are the organizations that the product flows through on its way to the consumer.   |  |  |  | | --- | --- | --- | | **Term** |  | **Description** | | *Intermediary* | https://d2l.cna.nl.ca/content/W09/MR2100_W09/images/v3_next_active.gif | Any intermediary between manufacturer and end-user markets. | | *Agent or Broker* | https://d2l.cna.nl.ca/content/W09/MR2100_W09/images/v3_next_active.gif | Any intermediary with legal authority to act on behalf of the manufacturer. | | *Wholesaler* | https://d2l.cna.nl.ca/content/W09/MR2100_W09/images/v3_next_active.gif | An intermediary who sells to other intermediaries, usually to retailers; usually applies to consumer markets. | | *Retailer* | https://d2l.cna.nl.ca/content/W09/MR2100_W09/images/v3_next_active.gif | An intermediary who sells to consumers. | | *Distributor* | https://d2l.cna.nl.ca/content/W09/MR2100_W09/images/v3_next_active.gif | An imprecise term, usually used to describe intermediaries who perform a variety of distribution functions, including selling, maintaining inventories, extending credit, and so on; a more common term in business markets but may also be used to refer to wholesalers. | | *Dealer* | https://d2l.cna.nl.ca/content/W09/MR2100_W09/images/v3_next_active.gif | An even more imprecise term that can mean the same as distributor, retailer, wholesaler and so forth. | |

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| **Direct Channels vs Indirect Channels** |
| Some marketing channels are relatively short with few intermediaries.  These are known as **Direct Channels**. The producer and consumer deal directly with each other.  Some marketing channels are relatively long with many intermediaries.  These are known as **Indirect Channels**. The intermediaries are inserted between the consumer and the producer and perform various functions.  **Marketing Channels for Business Goods and Services**  These channels can include an agent, business distributor and the business user.  **Electronic Marketing Channels**  The Internet has become a new way of bringing goods and services to both consumers and businesses.  This electronic marketing channel combines both electronic and traditional intermediaries to create time, place, form and possession utility for the buyers.  The type of channel could include a wholesaler or dealer, a virtual agent, broker or retailer before it reaches the consumer.  **Direct Marketing Channels**  ***Direct Marketing Channels*** allow consumers to buy products by interacting with various advertising media without a face-to-face meeting with a salesperson.  This includes mail-order selling, direct-mail sales, catalogue sales, telemarketing, interactive media and televised home shopping.  **Common Marketing Channels for consumer good and services:**  Channels |

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| **Why are there Marketing Intermediaries?** |
| Marketing intermediaries allow for the smooth flow of products and product information from the manufacturer to the consumer.  Intermediaries help manufacturers distribute their products, and help consumers easily find and obtain the products that they need to buy.  Intermediaries reduce the number of contacts necessary in order to make a sale thereby facilitating the marketing process.  **The Channel for Your New Honda Car**   |  |  | | --- | --- | | Manufacturer | The Manufacturer | |  |  | | Van | The Finished Product | |  |  | | Train | Travels by train | |  |  | | Boat | Travels by ship | |  |  | | Transport Truck | Travels by truck | |  |  | | Dealer | To a Dealer near the Consumer | |

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| **Functions of an Intermediary** |
| |  |  | | --- | --- | | One | **Transactional Functions:**  These functions involve the buying of products from manufacturers/producers; the risk that is taken on by the intermediary in buying on speculation that some consumer will want to eventually buy these products from the intermediary; and the eventual selling of products to consumers. | | Two | **Logistical Functions:**  These functions involve mixing up the various products from different manufacturers (assorting); moving and keeping the product safe from loss (shipping and storing); and breaking down the large quantities of products that manufacturers send in, into manageable size quantities to be shipped to retailers/consumers (sorting). | | Three | **Facilitating Functions**  These functions involve making it easy for the retailers/consumers to buy the products.  Two of the primary roles here involve providing financing, and providing marketing/product information to retailers and/or consumers. |  |  |  | | --- | --- | | **Type of Function** | **Activities Related to Function** | | ***Transactional Function*** | * *Buying*: Purchasing products for resale or as an agent for supply of a product * *Selling*: Contacting potential customers, promoting products, and soliciting orders * *Risk taking:* Assuming business risks in the ownership of inventory that can become obsolete or deteriorate | | ***Logistical Function*** | * *Assorting*: Creating product assortments from several sources to serve customers * *Storing*: Assembling and protecting products at a convenient location to offer better customer service * *Sorting*: Purchasing in large quantities and breaking into smaller amounts desired by customers * *Transporting*: Physically moving a product to customers | | ***Facilitating Function*** | * *Financing*: Extending credit to customers * *Grading*: Inspecting, testing, or judging products, and assigning them quality grades * *Marketing information and research*: Providing information to customers and suppliers including competitive conditions and trends |     **Utilities Created by Intermediaries**   |  |  | | --- | --- | | ***Time Utility*** | Allows consumers to get the product they desire quickly. | | ***Place Utility*** | There are more intermediaries (e.g. retailers) than manufacturers.  This helps get products where they are needed. | | ***Form Utility*** | Makes the product more appealing to consumers (e.g. Hickman Motors provides a showroom so that you can look at it and buy cars in relative comfort). | | ***Possession Utility*** | Financing, information and place are key to allowing the customer to get the product they need. |   **Types of Wholesale Intermediaries**  Generally there are two types of wholesalers:   * *Full line/service wholesalers* - ones that provide all of the three major functions * *Limited line/service wholesalers* - ones that provide only a limited number of functions   **Agents vs Brokers**   * *Agents* work for the manufacturer and look after their interests * *Brokers* work for their customers and seek the best possible deal from manufacturers |
| **Vertical Marketing Systems - Overview** |
| ***Vertical marketing systems*** are formalized links between each manufacturer/intermediary in each marketing channel.  These formalized links can take one of three forms:   |  |  | | --- | --- | | One | **Corporate Vertical Systems**  All members of the marketing channel are owned by a single owner.   * the [*Irving Group*](http://www.irvingoil.com/) of companies is an excellent illustration of a corporate system. * Irving refines oil, ships oil in Irving tankers and trucks, distributes it through Irving terminals, to Irving service stations | | Two | **Contractual Vertical Systems**  All members of the marketing channel are under contract with each other to supply/buy product from each other.   * *Wholesale-sponsored voluntary chains* - a wholesaler develops a contractual relationship with small, independent retailers to standardize and coordinate buying practices, merchandizing programs and inventory management systems, e.g. IGA is an example * *Retail sponsored co-operatives* - small independent retailers form an organization that operates a wholesale facility cooperatively.  Member retailers then concentrate their buying power through the wholesaler and plan advertising, promotion and pricing together. e.g. Home Hardware is an example * *Franchising* - a contractual arrangement between a head office or parent company (a franchisor) and an individual or firm (a franchisee) that allows the franchise to operate a certain type of business under an established name and according to specific rules.  e.g. McDonald's | | Three | **Administered Vertical Marketing Systems**  One member of the marketing channel is so large that it dominated all of the other members. e.g. Proctor and Gamble, Walmart   * Walmart can achieve economies by its sheer size relative to its suppliers.  It can force its suppliers to become more efficient and therefore pass the resulting savings along to consumers | | Four | **Channel Partnerships**  This consists of agreements and procedures among channel members for ordering and physically distributing a producer's products through the channel to the consumer.  These types of partnerships are very collaborative and use information and communication technology to better serve customers and reduce the time and cost of performing channel functions. | |

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| **Factors Affecting an Organization's Choice in Channel Length** |
| Deciding in whether a manufacturer offers its products through a short, direct channel or a longer, indirect channel is contingent on several factors:   |  |  | | --- | --- | | A | **Environmental Factors:**  Effects of changes in society, the economy, technology, competition and regulation all impact upon the choice of channel. | | B | **Consumer Factors:**  Sometimes consumers dictate the choice of channel required.   * Candy bar manufacturer [Cadbury](http://www.cadbury.co.uk/EN/CTB2003/), for example, needs to sell its products everywhere.  People are generally not willing to look too hard or wait too long to buy an impulse item like a candy bar.  Therefore an indirect channel is best for distributing candy bars everywhere.   In the US, Cadbury is licensed to [Hershey's](http://www.hersheys.com/products/details/cadbury.asp) for manufacture and distribution. | | C | **Product Factors:**  Certain products are not sold in sufficient volume to warrant wide distribution - therefore a more direct channel is used.   * [CANDU nuclear reactors](http://www.aecl.ca/index.asp) do not sell in large volume (1 a year or two?), therefore a large distribution network is not required and a direct channel (manufacturer→consumer) is most appropriate. | | D | **Company Factors:**  A company may choose to sell a certain way using a certain channel strategy.   * [L.L.Bean](http://www.llbean.com/) sells through direct mail only.  L.L. Bean may be large and popular enough to set up retail stores as other competitors such as [Eddie Bauer](http://www.eddiebauer.com/eb/default.asp) have chosen to do, but L.L. Bean have chosen not to pursue the retail option. |   **Channel Design Considerations**  When designing a marketing channel, consider the following:   * *What is the best way to serve/cover the target market?* - intensive, selective or exclusive distribution * *What is the best way to satisfy buyer requirements?* - satisfy needs of information, convenience, variety and attendant services * *Which channel design will yield the most profit?* - channel cost is a critical dimension of profitability.  Costs include distribution, advertising and selling |

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| **Other Dimensions of Marketing Channels** |
| **Global Dimensions**  Marketing globally involves many factors, one of which is the use of marketing channels.  Understanding the marketing channels in other countries is an important factor in selling your product in the global market.  Marketing channels are different in Japan than Canada and the US.  Understanding how they work is critical to selling your products.  **Channel Conflict, Cooperation and Law**  ***Channel conflict*** arises when one channel member believes that another channel member is hindering its sales.  There are two types of conflicts:   1. *Vertical conflict* - occurs between different levels in a marketing channel, e.g. between a manufacturer and a distributor 2. *Horizontal conflict* - occurs between intermediaries on the same level   Conflict can be destructive therefore *cooperation* is needed between the channels.  This can often be accomplished by the use of a *channel captain* who is a channel member that directs and coordinates other members.  Sometimes channel conflict can only be resolved by using the *legal system*.  Negotiation, arbitration or law suits may all be employed to resolve conflict.   |  |  | | --- | --- | | Weblinks | For more information on Distribution review the site below:  <http://www.tutor2u.net/business/marketing/distribution_introduction.asp> | |

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| **Physical Distribution vs Logistics** |
| ***Physical Distribution*** focuses on the distribution of products from the manufacturer to the customer.  ***Logistics*** has a broader focus.  Logistics encompasses the flow of raw material to the manufacturer as well as the physical distribution of the finished product to the consumer.  Diagram    **The Important of Logistics Depends on....**   |  |  | | --- | --- | | ***One*** | The number, weight, volume and perishability of the product. (Product Factors) | | ***Two*** | Number of material supply sources | | ***Three*** | Number of manufacturing points | | ***Four*** | Number of consumption points | |

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| **Logistics and Marketing Strategy Interact** |
| |  |  |  | | --- | --- | --- | | ***Product Factors*** | - | The number, weight, volume, and perish ability of the product | | ***Pricing Factors*** | - | Costs of shipping, storage and discounts | | ***Promotional Factors*** | - | Ads and promotion must be timed with logistical factors so that the product is available | | ***Place Factors*** | - | Transportation and storage issues | |

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| **Objectives of a Good Logistical System** |
| There has to be a trade-off made between minimizing logistical costs of moving and storage and maximizing the service to the customer.   |  | | --- | | *For example*:  Should a car dealership stock every part for every car? Inventory and shipping costs are expensive but having customers waiting because the part is not available is also expensive in terms of lost customer satisfaction | |

**Continued -    Total Logistics Cost Concept**

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| **Total Logistics Cost Concept** |
| The ***Total Logistics Cost Concept ries*** to balance the costs of shipping with the costs of storage to find the optimum minimum cost level.  It includes expenses associated with transportation, materials handling, warehousing, inventory, stock-outs (being out of stock or inventory), order processing and returned goods handling.  Because these costs are so interrelated often a change in one aspect will impact another aspect.  **How total logistics cost varies with number of warehouses used.**  Graph |

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| **Customer Service Concept** |
| Customers  This concept simply balances the trade-off of the cost of Total Logistics Cost Concept with the costs of providing key elements of customer service such as Communication, Dependability, Convenience and Time.   |  |  | | --- | --- | | ***Time*** | This refers to the *lead time* for an item which is the difference in time from ordering the item until it is received and ready for sale or use. Current philosophy is to reduce this time as much as possible. | | ***Dependability*** | Receiving the right products at the right time for production or sale is important.  If there are long or short lead times, suppliers need to know so they can make arrangements. | | ***Communication*** | Buyer and seller must remain in contact so as to monitor goods. Improved tracking information has helped this area. | | ***Convenience*** | Making it easy to order products and having them available is important. | |

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| **Two Major Logistics Functions** |
| **Transportation**  Five basic modes of transportation include rail, road, air, water and pipelines.  (*Inter-modal transportation* involves a mixture of methods.  Each method has distinctive advantages over the other.  The choice depends on the destination and the product.  Weigh out the advantages and disadvantages and costs of each.  **Warehousing & Materials Handling**  The key functions include order processing and inventory management.  *Just-in-Time (JIT) Inventory* is becoming increasingly popular because it affords significant cost savings.  This system operates on very low inventories and requires fast, on-time delivery.  Walmart uses JIT. |

Bottom of Form